

WATER/ICRJ/RHG

Decision _____

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**

In the Matter of the Application of DEL ORO WATER COMPANY U-61-W, for authority to borrow approximately \$250,000 (and to issue evidence of indebtedness in connection therewith) in order to pay the costs of determining compliance with the California Environmental Quality Act of a proposed capital improvement project and for authority to recover all such costs by applying monthly surcharges to customers in its Lime Saddle, Paradise Pines and Magalia Districts in Butte County, California.

Application 02-06-033
(Motion Requesting
Surcharge Authority
filed December 5, 2002)

SUPPLEMENTAL OPINION**Summary**

This decision grants Del Oro Water Company (Del Oro) the authority to place in effect a surcharge on existing water rates for the purpose of repaying the principal and interest of the loan authorized by Decision (D.) 02-09-036 as amended by D.02-11-065.

Del Oro filed a Motion on December 5, 2002 pursuant to Ordering Paragraph 5 of D.02-09-036, as amended, which states:

If Del Oro is unable to obtain a loan without authorization for surcharge recovery, it can enter into a loan agreement conditioned upon the Commission's authorization of a

surcharge. Del Oro shall file a motion to request such surcharge recovery. Del Oro shall make a showing that the lender requires a dedicated source of payment and shall comply with the customer notification procedure for rate increase contained in the Commission's Rules of Practice and Procedure.

Del Oro's proposed surcharge was published in a local newspaper with general circulation in the Town of Paradise and the Districts of Magalia, Lime Saddle, and Paradise Pines on December 21, 2002. Individual notices were mailed on December 18, 2002 to customers with meter sizes 1" or larger (excluding some exempt entities within the Lime Saddle District). No protests have been received.

Background

Del Oro is a Class B water utility subject to the jurisdiction of this Commission. Del Oro provides water to the city of Ferndale in Humboldt County, the community of Johnson Park in Shasta County and a portion of the city of Bakersfield in Kern County. Del Oro operates two water systems (the Paradise Pines District and the Magalia District) in an unincorporated area known as Magalia in Butte County; provides water service in the unincorporated communities known as Stirling City (north of the Town of Paradise); and in Lime Saddle (located within a portion of and south of the Town of Paradise).

On February 4, 2002, Del Oro filled Application (A.) 02-02-001 with the Commission seeking, among other things, a certificate that present and future public convenience and necessity requires Del Oro to install the Paradise Pines, Magalia, and Lime Saddle District's (collectively referred

to as the “Upper Ridge”) Project¹; for authority to incur indebtedness to pay the costs of such project; and for authority to recover all present and future costs in connection therewith by an increase in water rates.

On March 4, 2002, the presiding Administrative Law Judge ruled that A.02-02-001 was defective in that a California Environmental Quality Act (CEQA) compliance must first be addressed before the Commission may consider granting its approval to the issuance of a certificate of public convenience and necessity.

On June 12, 2002, Del Oro filed A.02-06-033 requesting authority to obtain a \$250,000 “environmental clearance loan” to finance the costs associated with securing CEQA review of the proposed Upper Ridge project and to place in effect a surcharge on existing water rates to repay the loan principal and interest.

D.02-09-036 dated September 19, 2002 in A.02-06-033, as amended, granted Del Oro the authority to borrow \$250,000 under the Safe Drinking Water State Revolving Fund (SDWSRF) or from a conventional lender for CEQA compliance on the proposed Upper Ridge project. This decision denied without prejudice Del Oro’s request for authority to contemporaneously apply monthly surcharges to customers to repay the principal and interest of the loan. The decision states that in order for this Commission to authorize a principal and interest surcharge, the utility must make a showing that the lender requires a dedicated source of payment for the loan and the utility must comply with the notification procedure under Rule 24 of the Commission’s Rules of Practice and Procedure.

¹ Approximately \$7.4 million additions to facilities that involve construction in two phases connecting Del Oro’s systems to Lake Oroville.

Furthermore the decision states that if Del Oro is unable to obtain a loan without authorization for surcharge recovery, it can enter a loan agreement conditioned upon the Commission's authorization of a surcharge. Thereafter, Del Oro may file a motion to request such surcharge recovery.

Del Oro states in its supplemental data to the Motion that at the time D.02-09-036 was issued, no funds were available under the SDWSRF. Because of time constraint, Del Oro promptly proceeded to look for a conventional lender willing to provide funding of the costs associated with the CEQA review required for the utility's construction project, a financing option specifically provided for in D.02-09-036.

Notice and Protests

Del Oro notified the Upper Ridge customers of the proposed surcharge by publication in the Paradise Post, a newspaper with general circulation in the Town of Paradise and the entire Upper Ridge area on December 21, 2002, and by individual notice dated December 18, 2002 to customers with meter sizes 1" or larger (excluding some exempt entities within the Lime Saddle District). No protests have been received.

Motion to Apply Monthly Surcharge

On October 25, 2002, Del Oro obtained an offer from North Valley Bank (Bank) in Redding, California for a commercial term loan of \$250,000 at a fixed rate of 7.5%, with a six- year term, and a monthly amortization of \$4,322.53 (combined principal and interest), as shown in Exhibit 1 attached to the Motion. The Bank's offer is expressly conditioned upon a dedicated source of repayment in the form of a principal and interest surcharge

approved by the Public Utilities Commission of the State of California. The loan is to be secured with the utility's accounts receivables, inventory, and equipment and with personal and corporate guarantees. The Bank's offer expires January 24, 2003 and Del Oro is currently requesting an extension from the Bank.

There are approximately 4,500 connections in the Paradise Pines District, 366 connections in the Magalia District, and 287² connections in the Lime Saddle District.

The amount of the surcharge to repay the principal and interest will be in direct proportion to the capacity of each customer's meter or service connection. With a monthly requirement for debt service of \$4,322.53 or \$51,871 annually, the estimated surcharges for six years are as follows:

Size of Meter	Monthly Surcharge
5/8 x 3/4-inch	\$ 0.77
3/4-inch	1.16
1-inch	1.94
1 1/2-inch	3.87
2-inch	6.20
3-inch	11.62
4-inch	19.37

Magalia District

The present rate for water service for the Magalia District became effective August 28, 2001 authorized by Res. W-4295.

² Excludes 184 entities within the Lime Saddle District who are exempt from the proposed surcharge in accordance with provisions of previously executed Lime Saddle Manina/Pentz Intertie Project contracts.

Monthly Quantity Charge: \$2.25 per 1000 gallons

Size of Meter	Rate Per Meter Per Month	Proposed Surcharge Per Month	Total	Increase	% Inc.
¾" meter	\$16.37	\$ 1.16	\$17.53	\$1.16	7.10%
All others	28.22	1.94	30.16	1.94	6.09%
Add'l units	12.19	0.77	12.96	0.77	6.03%

The monthly bill for a typical ¾" metered customer using 6,000 gallons of water would increase from \$29.87 per month to \$31.03 or 3.88% for six years. Of a total 366 customers, 364 or 99.5% are ¾" metered customers.

Lime Saddle District

The present rate schedule for water service for the Lime Saddle District became effective November 2, 2001 authorized by Res. W-4302.

Monthly Quantity Charge: \$2.16 per 1000 gallons
Monthly Purchased Water Surcharge: 0.24 per 1000 gallons

Size of Meter	Rate Per Meter Per Month	Proposed Surcharge Per Month	Total	Increase	% Inc.
5/8 x ¾" meter	\$17.58	\$ 0.77	\$18.35	\$0.77	4.40%
¾" meter	17.58	1.16	18.74	1.16	6.60%
1" meter	17.58	1.94	19.52	1.94	11.00%
1 ½" meter	17.58	3.87	21.45	3.87	22.00%
2" meter	17.58	6.20	23.78	6.20	35.30%
3" meter	17.58	11.62	29.20	11.62	66.10%
4" meter	17.58	19.37	36.95	19.37	110.20%

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The monthly bill for a typical 5/8 x 3/4" metered customer using 14,000 gallons of water would increase from \$51.18 per month to \$51.95 or 1.50% for six years. Of a total 287 customers, 278 or 96% are 5/8 x 3/4" metered customers.

Paradise Pines District

The present rate schedule for water service for the Paradise Pines District became effective August 28, 2002 authorized by Res. W-4341.

Monthly Quantity Charge: \$1.342 per 100 cu.ft.

Size of Meter	Rate Per Meter Per Month	Proposed Surcharge Per Month	Total	Increase	% Inc.
5/8 x 3/4" meter	\$10.10	\$ 0.77	\$10.87	\$ 0.77	7.60%
3/4" meter	15.20	1.16	16.36	1.16	7.60%
1" meter	25.50	1.94	27.44	1.94	7.60%
1 1/2" meter	43.08	3.87	46.95	3.87	9.00%
2" meter	59.16	6.20	65.36	6.20	10.50%
3" meter	101.92	11.62	113.54	11.62	11.40%
4" meter	134.83	19.37	154.20	19.37	14.40%

The monthly bill for a typical 5/8 x 3/4" metered customer using 1,000 cubic feet of water would increase from \$23.52 per month to \$24.29 or 3.27% for six years. Of a total 4,500 customers, 4,462 or 99.2% are 5/8 x 3/4" metered customers.

The surcharge will offset Del Oro's future loan repayments and not contribute to an increased rate of return. With a surcharge authorization, the utility is held responsible for refunding or applying on behalf of the customers any surplus accrued in the balancing account and the utility is

directed by the Commission to make a filing whenever a decrease in rate surcharge is warranted.

We are aware that Del Oro will not be able to obtain the Bank loan until Del Oro demonstrates to the Bank that it has the source of funds to be used for repayment of the loan and that such dedicated funds are documented in an ordinance or resolution. Without this available funding, Del Oro will not be able to comply with the CEQA issue attendant to the March 4, 2002 ruling in A.02-02-001. To the extent that the source of funds requirement remains a condition in the Bank's loan policy, Del Oro's debt financing which will be used for CEQA compliance cannot be acquired without a surcharge authorization.

The surcharge serves only to repay the debt and will not generate any revenue to the utility owner. This Commission will authorize the proposed surcharge with the following conditions:

1. The surcharge will be implemented by separate advice letter, and made effective on five days' notice, but not earlier than the date of the loan contract.
2. The surcharge should be separately identified on customers' bills. The loan should be permanently excluded from rate base for ratemaking purposes.
3. Del Oro shall use the proceeds of the loan for the purpose of securing environmental clearance.
4. Upon execution of the loan, Del Oro should record all billed surcharge in a balancing account, which should be reduced by payment of principal, and interest.

5. Del Oro should provide the Director of the Water Division quarterly summaries of transactions including all surcharges billed to customers, amounts collected, and loan payments.
6. The surcharge should be adjusted periodically to reflect changes in the number of connections. Such changes in future rates should be accomplished by normal advice letter procedures.
7. The surcharge to repay the loan should last as long as necessary to repay the loan. The surcharge should not be commingled with other utility charges.
8. Del Oro should be responsible for refunding or applying on behalf of the customers of the Magalia, Lime Saddle, and Paradise Pines Districts any surplus accrued in the balancing account when ordered by the Commission.
9. Del Oro should inform the Director of the Water Division when the CEQA review is completed and provide a copy thereof.
10. As a condition of the order granted herein, Commission Staff will conduct periodic audit of Del Oro's books to ensure compliance with this order.

Pursuant to § 853(b) of the Public Utilities Code, we will also permit Del Oro to encumber its property, as long as it serves to secure the debt we authorized in D.02-09-036, as amended.

This is an uncontested matter in which the decision pertains solely to a water company. Accordingly, pursuant to PU Code § 311(g)(3), the 30-day period for public review and comment under § 311(g)(1) does not apply.

We approve Del Oro's Motion in this order.

Findings of Fact

1. Del Oro, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. Del Oro's Motion is for proper purposes and not adverse to the public interest.

3. The Bank's loan offer is expressly conditioned upon a dedicated source of repayment in the form of a principal and interest surcharge to be authorized by the Public Utilities Commission.

4. Del Oro's proposed surcharge was published in a local newspaper with general circulation in the Town of Paradise and the Districts of Magalia, Lime Saddle, and Paradise Pines on December 21, 2002. Individual notices were mailed on December 18, 2002 to customers with meter sizes 1" or larger (excluding some exempt entities within the Lime Saddle District). No protests have been received.

5. There is no opposition to the Motion and there is no reason to delay granting the request described therein.

Conclusions of Law

1. A public hearing is not necessary.

2. The Motion should be granted to the extent set forth in the order that follows.

3. The following order should be effective on the date of signature.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. Del Oro Water Company (Del Oro) is authorized to file in accordance with General Order No. 96-A, and make effective on five days' notice, but not earlier than the date of the loan contract agreement, an advice letter which implements the rate surcharges attached to this order as Appendices A, B, and C.
2. Del Oro may execute and deliver any or all related documents required for completion of the loan with North Valley Bank, and encumber its assets in connection with the loan.
3. Del Oro shall file with the Water Division a copy of the loan agreement and promissory note within 15 days after execution.
4. Del Oro shall provide the Water Division a copy of the Environmental Impact Report and/or Notice of Determination.
5. The surcharge authorized in this decision shall be used solely for the repayment of the loan principal and interest.
6. The surcharge shall be separately identified on customers' bills. The loan shall be permanently excluded from rate base for ratemaking purposes.
7. Del Oro shall use the proceeds of the loan for the purpose of securing environmental clearance.
8. Del Oro shall record all billed surcharges in a balancing account, which should be reduced by payment of principal, and interest.

9. Del Oro shall provide the Director of the Water Division quarterly summaries of transactions including all surcharges billed to customers, amounts collected, and loan payments.

10. The surcharge shall be adjusted periodically to reflect changes in the number of connections. Such changes in future rates shall be accomplished by normal advice letter procedures.

11. The surcharge to repay the loan shall last as long as necessary to repay the loan. The surcharge shall not be commingled with other utility charges.

12. Del Oro shall be responsible for refunding or applying on behalf of the customers of the Magalia, Lime Saddle, and Paradise Pines Districts any surplus accrued in the balancing account when ordered by the Commission.

13. Commission Staff will conduct periodic audit of Del Oro's books to ensure compliance with this order.

14. Application 02-06-033 is closed.

This order is effective today.

Dated _____, 2003, at San Francisco, California.

APPENDIX A

Schedule No. LS-1A

ANNUAL METERED SERVICE

LIME SADDLE DISTRICT

APPLICABILITY

Applicable to all metered service furnished on an annual basis to the Lime Saddle District Service Area.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Lime Saddle Community Services District, located south of the Town of Paradise and north of Highway 70, Butte County.

RATES

Quantity Rate:

All water, per 1,000 gallons \$ 2.16
*Purchased water surcharge per 1,000 gallons \$ 0.24

Service Charge:

	Per Meter <u>Per Year</u>	Surcharge Per Meter <u>Per Month</u>
5/8 x 3/4" meter	\$ 211.00	\$ 0.77 (N)
3/4" meter	211.00	1.16
1" meter	211.00	1.94
1-1/2" meter	211.00	3.87
2" meter	211.00	6.20
3" meter	211.00	11.62
4" meter	211.00	19.37 (N)

The Service charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added the charge for water used computed at the Quantity Rate.

*Purchased Water surcharge should be collected from November 1, 2001 through October 31, 2003.

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The monthly surcharge is specifically for the repayment of the Environmental Clearance (N) loan authorized by Decision No. _____. The monthly surcharge rates are subject to periodic adjustment. | (N)

APPENDIX B

Schedule No. MD-1A

ANNUAL GENERAL METERED SERVICE

MAGALIA DISTRICT

APPLICABILITY

Applicable to all metered service furnished on an annual basis to the Magalia Service Area.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as the Magalia County Water District, located north of the Town of Paradise and south of the Paradise Pines District of Del Oro Water Company.

RATES

Quantity Rate:

Per Meter Per Month

For all water, per 1,000 gallons \$ 2.25

Service Charge:

	<u>Per Meter Per Year</u>	<u>Surcharge Per Meter Per Month</u>
¾" meter	\$ 196.44	\$ 1.16 (N)
All other meter sizes	338.64	1.94
Additional units	146.28	0.77 (N)

Additional units are in accordance with Special Condition Four.

The Service charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added the monthly charge for water used computed at the Quantity Rate.

The monthly surcharge is specifically for the repayment of the Environmental Clearance (N) loan authorized by Decision No. _____. The monthly surcharge rates are subject to |

periodic adjustment.

(N)

(continued)

APPENDIX C

Schedule No. PP-1A

ANNUAL GENERAL METERED SERVICE

PARADISE PINES DISTRICT

APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Paradise Pines District Service Area.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

Quantity Rate:

Monthly per 100 cu.ft. \$ 1.342 (T)

Service Charge:

	<u>Per Meter Per Year</u>	<u>Surcharge Per Meter Per Month</u>
5/8 x 3/4" meter	\$ 121.20	\$ 0.77 (N)
3/4" meter	182.40	1.16
1" meter	306.00	1.94
1-1/2" meter	516.96	3.87
2" meter	709.92	6.20
3" meter	1,223.04	11.62
4" meter	1,617.96	19.37 (N)

The Service charge is a readiness-to-serve charge, which is applicable to all metered water service and to which is added the monthly charge for water used computed at the Quantity Rate. (T) | (T)

The monthly surcharge is specifically for the repayment of the Environmental Clearance loan authorized by Decision No. _____. The monthly surcharge rates are subject to periodic adjustment. (N) | (N)

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